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ACTION
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	ACTION	INFO
1. D/OCA		X
2. DD/Legislation	X	
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Remarks:

IF 11/8/87

Name/Date



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

O/CONGRESSIONAL AFFAIRS

87-5624

November 4, 1987

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer -
Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
✓ Central Intelligence Agency
Environmental Protection Agency
National Aeronautics and Space Administration
Office of Personnel Management
Small Business Administration
Veterans Administration

OGA FILE

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SUBJECT: General Services Administration comments on S. 1750, "To amend title 5, United States Code, to liberalize certain provisions authorizing reimbursement for expenses of sale and purchase of a residence upon the transfer of a Federal employee, and to provide for the payment of certain travel and transportation expenses of civil service career appointees." (See Cong. Record 10/2-87, page S-13483; this bill passed the Senate 10/8-87).

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than Friday, November 20, 1987.

Questions should be referred to Hilda Schreiber (395-7362), the legislative analyst in this office.

Naomi R. Sweeney
Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures

S. 1750, 100th Congress, a bill, "To amend title 5, United States Code, to liberalize certain provisions authorizing reimbursement for expenses of sale and purchase of a residence upon the transfer of a Federal employee, and to provide for the payment of certain travel and transportation expenses of civil service career appointees."

The General Services Administration (GSA) wishes to comment on S. 1750, which would liberalize certain provisions authorizing reimbursement for expenses of sale and purchase of a residence upon the transfer of a Federal employee, and provide for the payment of certain travel and transportation expenses of civil service career appointees. GSA has reviewed S. 1750 and supports section 1 of the bill, but is opposed to section 2 of the bill for reasons outlined below.

Section 1 would authorize reimbursement of expenses for the sale of a residence at an employee's former duty station when an overseas tour of duty in a foreign area is completed, and reassignment will be to a duty station in the United States or other nonforeign area other than the one from which he was transferred when assigned to the overseas station. The bill contains a prohibition against payment for any sales transaction that occurred prior to official notification that return to the United States (or other nonforeign area) would be to a different duty station.

While GSA supports section 1 of S. 1750, the following technical modifications are recommended:

a. Insert the following words on page 2, line 8 before the semicolon "(hereinafter described as the former Canal Zone Area)"

b. In three places in subsections (a)(1) and (2) (page 2, lines 13-19 and lines 22-26 and page 3, lines 1-2 and lines 12-18) the words "outside the United States, its territories or possessions, the Commonwealth of Puerto Rico, or areas and installations in the Republic of Panama made available to the United States pursuant to the Panama Canal Treaty of 1977 and related agreements (as described in section 3(a) of the Panama Canal Act of 1979)" should be changed to read "in a foreign area". Also delete the words "other than" on page 3, line 3 in subsection (a)(2)) and substitute "in a geographic area away from".

c. In subsection (a)(1), page 3, line 8 the words "made available to the United States pursuant to the Panama Canal Treaty of 1977 and related agreements (as described in section 3(a) of the Panama Canal Act of 1979) should be inserted after the word "Panama", or, if the first technical amendment recommended above is accepted, replace the entire phrase "such areas...Panama" with the words "the former Canal Zone area".

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d. In subsection (a)(2), page 3, lines 21-23 change the words "employee's return...other than" to read "employee would be reassigned or transferred to an official station in a geographic area away from". At the end of the final sentence in subsection (a)(2), add the following new sentence: "For purposes of this subsection, foreign area is defined as any area outside those areas enumerated in the first sentence of this subsection." (Using the terms "former Canal Zone area" and "foreign area" in subsections (a)(1) and (2) would eliminate the need to specifically repeat the lengthy definition of locations that are considered foreign areas.)

e. Also in subsection (a)(2), page 3, line 19 the word "an" should be inserted between "settlement of" and "unexpired lease".

f. An additional provision should be added to subsection (a)(2) of the bill to provide that "Residence purchase expenses shall not be allowed incident to transfer from a foreign post of duty unless expenses for the sale of the residence at the former official station have been allowed under this subsection." This restriction would prevent employees that do not own property at the former official station, either because they rented or had already disposed of their residence prior to notification of transfer to a different location upon return from the foreign post of duty, from receiving assistance with the purchase of a new home. This allowance should help only those employees who must sell a home at one domestic duty point and purchase a new one following an intervening tour at a foreign post of duty.

g. In subsection 1(b), page 4, line 3 insert "in a foreign area" after "post of duty".

(A revised version of the amendments proposed above to subsection (a) is enclosed which incorporates the language recommended above.)

Section 2 of this bill gives agencies discretion to allow retiring career Senior Executive Service (SES) employees, who have been geographically relocated in the interest of the Government, reimbursement for travel and transportation expenses for themselves (and members of their immediate families) to a place of residence where they will reside upon separation from service.

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GSA opposes enactment of section 2 of S. 1750. This amendment to 5 U.S.C. 5724(a) would extend limited relocation allowances and entitlements to certain career appointees in the SES upon their separation from service. The conditions for eligibility are that the SES member must have been previously transferred between permanent duty stations in the interest of the Government and be eligible for retirement under the Civil Service Retirement System or the Federal Employee Retirement System.

While GSA does not object to the intended purpose of the bill (i.e. to encourage career SES employees to relocate in the later stages of their career rather than opt for early retirement), GSA does object to manipulation of the employee relocation entitlement system to achieve this goal. This agency would suggest a more direct approach, such as payment of a salary differential.

The problem with using relocation allowances as an incentive is that equity arguments eventually may require their extension to other employees. As with other relocation benefits that originally were offered on a selective basis, such as travel and transportation expenses for new hires in shortage category positions, there eventually would be pressure to extend these benefits to cover other employees. While the focus of this bill is on SES members, clearly there are other highly skilled and experienced employees in the later stages of their careers similarly deterred by retirement considerations from transferring in the interest of the Government.

GSA does not believe that the comparison with retirement or separation entitlements currently enjoyed by the military (uniformed members) or Foreign Service personnel is valid. Whereas these entitlements are applied uniformly across the services, the proposed retirement relocation allowance for career SES employees is limited to a select group of the civilian employee workforce.

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For the reasons discussed above, GSA opposes enactment of section 2 of S. 1750. However, if favorable action is to be taken on these provisions, it is proposed either that:

a. Section 2 be expanded to cover all career civilian employees who have transferred in the interest of the Government (under so called directed moves or mobility agreement moves) in the later stages of their career; possibly during the last 5 years prior to retirement eligibility; or

b. Section 2 be revised to require that the qualifying transfers must have been while the employee served in the SES. As presently worded, an employee could have transferred early in his career and never have been transferred in an SES position.

A cost estimate is attached.

Attachment

**SECTION 1. REIMBURSEMENT OF EXPENSES OF SALE
AND PURCHASE OF A RESIDENCE UPON
THE TRANSFER OF A FEDERAL EMPLOYEE**

**(a) REIMBURSEMENT OF EXPENSES.--Section
5724a(a)(4)(A) of title 5, United States Code, is
amended--**

**(1) by inserting before the period at the end
of the first sentence the following:**

**"(hereinafter described as the former Canal Zone
area); and expenses, required to be paid by the
employee, (i) of the sale of the residence (or the
settlement of an unexpired lease) of the employee
at the official station from which the employee
was transferred when he was assigned to a post of
duty located in a foreign area, and (ii) of the
purchase of a residence at the new official
station when the employee is transferred in the
interest of the Government from a post of duty
located in a foreign area to an official station
(in a geographic area away from the official
station from which he was transferred when
assigned to the foreign tour of duty) within the
United States, its territories or possessions, the
Commonwealth of Puerto Rico, or the former Canal
Zone area"; and**

**(2) by adding at the end thereof the
following new sentence: "Reimbursement of**

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expenses prescribed under this paragraph in connection with transfers from a post of duty located in a foreign area shall not be allowed for any sale or settlement of an unexpired lease or purchase transaction that occurs prior to official notification that the employee would be reassigned or transferred to an official station in a geographic area away from the official station from which the employee was transferred when assigned to the foreign post of duty. Residence purchase expenses shall not be allowed incident to transfer from a foreign post of duty unless expenses for the sale of the residence at the former official station have been allowed under this subsection. For purposes of this subsection foreign area is defined as any area outside those areas enumerated in the first sentence of this subsection."

(b) EFFECTIVE DATE.--The amendments made by subsection (a) shall be applicable with respect to any employee transferred to or from a post of duty in a foreign area on or after 60 days after the date of enactment of this section.

ATTACHMENT 1
PAGE 1 OF 3

COST IMPACT OF S. 1750-SECTION 1

The estimated cost impact of the proposed legislation is \$23.8 million, assuming that 75% of the employees selling a residence will opt for relocation services and that the average price of a residence transaction is \$100,000. The current cost estimate is approximately equal to our 1982 estimate of \$24.0 million, despite the fact that the estimated number of eligible employees has declined by about 30% since our earlier analysis.

The 1982 estimate was made prior to the enactment of legislation providing for relocation services and the relocation income tax allowance. The 1982 analysis assumed maximum reimbursement, implying a residence price of \$150,000. The average residence price used in the current analysis more nearly reflects actual experience. The effects of assuming a lower average residence price and a reduced number of eligible employees outweigh the cost impact of the relocation income tax allowance and the provision of relocation services.

The estimated amount of increased costs is probably overstated in terms of overall budget impact since we believe some employees, who would otherwise be immediately assigned to a new post of duty in the United States upon return from foreign duty, are now returned to the old post of duty and subsequently reassigned to the new post of duty. The relocation expense reimbursement is then handled as a domestic reassignment and relocation.

<u>Proportion of Employees Choosing: Relocation Services/Direct Reimbursement</u>	<u>Cost Impact Assuming An Average Residence Price of \$100,000 (\$ Millions)</u>
75% / 25%	\$23.8
0% / 100% *	\$18.0

*This assumption is included for comparison purposes only.

The cost impact figures shown above are based on:

1. Estimates of average allowances per employee shown on Page 2 of this Attachment.
2. The assumption that 807 employees will sell and purchase a residence. The basis for this assumption is outlined on Page 3 of this Attachment.

ATTACHMENT 1
PAGE 2 OF 3Average Allowance per Employee

Average Price/Market Value of Residence \$100,000

<u>Allowances</u>		<u>Direct Reimbursement</u>
Sale of Residence @ 10% of Price	1/	\$10,000
Purchase of Residence @ 5% of Price	1/	5,000
Relocation Income Tax Allowance	2/	<u>7,333</u>
	TOTAL	<u>\$22,333</u>

<u>Allowances</u>		<u>Relocation Services</u>
Sale of Residence @ 25 % of Appraised Market Value	3/	\$25,000
Purchase of Residence @ 5% of Price	1/	5,000
Relocation Income Tax Allowance	2/	<u>1,901</u>
	TOTAL	<u>\$31,901</u>

1/ The Federal Travel Regulations limit direct reimbursement to \$17,777 (8,589), or 10% (5%) of the sale (purchase) price of a residence, whichever is less.

2/ Under IRS regulations a move from a foreign country to the United States is treated the same for tax purposes as a move within the United States. The estimated relocation income tax (RIT) allowance assumes that the employee will be in the maximum Federal tax bracket of 28 percent for 1988. State and local taxes are assumed to be eight percent and two percent, respectively. The employee is assumed to deduct \$1,500 of the maximum \$3,000 allowable moving expense deduction for temporary quarters, leaving a \$1,500 deduction for real estate expenses. Under current practices, the RIT allowance is not applied to the sale of a residence using relocation services.

3/ Weighted average cost of DOD and GSA relocation services contracts.

NAVY contract	22%
AIR FORCE	23%
GSA contracts	18-36% (est. avg. 30%)
DOD (23%) (70%)	16%
OTHER (30%) (30%)	<u>9%</u>
	25%

ATTACHMENT 1
PAGE 3 OF 3Number of Eligible Employees
Who Will Sell and Purchase a Residence

We estimate that approximately 75 percent of civilian employees returning to the United States will be assigned to a new post of duty and will be eligible for the residence transaction expense benefits. We also estimate that Department of Defense (DOD) civilian employees in this category will comprise 70 percent of the affected employees. It should be noted that foreign service personnel covered by the entitlements of the State Department Foreign Affairs Manual are not included in this category.

The number of eligible employees is calculated as follows:

DOD civilians returning to U.S. annually from overseas posts of duty (based on number of household goods shipments reported by Military Traffic Management Command for FY 1986)	= 1,884 = (70%)
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Other civilian returnees	= <u>807</u> = (30%)
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TOTAL	= 2,691 = (100%)
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Estimated percentage of returnees that will be eligible for residence transaction expense reimbursement	= <u>x 75%</u>
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Estimated number of employees eligible for benefits	= 2,018
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A survey conducted by GSA and OPM covering relocations during FY 1979 showed that approximately 40 percent of transferred employees sold a residence in connection with the relocation. We have assumed that employees who sell a residence at the old duty station will purchase a residence at the new duty station.	= <u>x 40%</u>
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Estimated number of eligible returnees who will sell and purchase a residence	= 807
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ATTACHMENT 2

COST IMPACT OF S. 1750-SECTION 2

The maximum estimated cost impact of the proposed legislation is \$3.9 million. This assumes that 200 SES retirees will use these benefits at an average cost of \$19,594 per retiree. The overall budget impact would probably be less than \$3.9 million, since the worst-case assumption used below (cross-country move plus 18,000 pounds of household goods transported and stored for maximum period allowed) would not apply in all cases.

Cost per Retiree

From Seattle, WA to Boston, MA

Distance -- 2,969 Miles

Household goods shipment --	\$12,935
Storage -- 180 days	+ 5,659
Subtotal	<u>\$18,594</u>

Travel and transportation
expense for retiree
and spouse

	+ 1,000
TOTAL	<u>\$19,594</u>